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Federal Bureau of Investigation

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Washington, D.C. 20535

January 24, 1997

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
Room 222
1919 M Street, N.W.
Washington, D.C. 20554

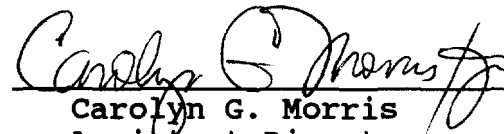
RE: In the Matter of)
The Merger of MCI Communications)
Corporation and)
British Telecommunications plc)

GN Docket No. 96-245

Dear Mr. Caton:

Enclosed for filing please find an original and four
copies of the Comments of the Federal Bureau of Investigation in
the above matter.

Sincerely,


Carolyn G. Morris
Assistant Director

Information Resources Division
Room 5835, JEH Bldg.
10th & Pennsylvania Av., N.W.
Washington, D.C. 20535
(202) 324-4840

cc: International Bureau
Wireless Telecommunications Bureau
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In the Matter of)
The Merger of MCI Communications)
Corporation and)
British Telecommunications plc)

GN Docket No. 96-245

Comments of the Federal Bureau of Investigation

From information provided to the Federal Bureau of Investigation (FBI) in connection with the captioned application, we understand that MCI Communications Corporation (MCIC) and British Telecommunications plc (BT) intend a merger of their companies to create a unified telecommunications company, to be called Concert plc (Concert). Approval of the Federal Communications Commission (FCC) is being sought by these parties, including by the FCC's granting of needed licenses, certificates, and authorizations, to permit Concert, through a new, to-be-created U.S. subsidiary, MCI Communications Corporation (new MCIC), to be licensed to offer in the U.S. local, intercity, and international services. In particular, applications have been filed under the Submarine Cable Act and Sections 214 and 310 of the Communications Act of 1934, as amended, to transfer control over, inter alia, licenses, authorizations, and certificates of public convenience and necessity.

In addition, though outside of the instant application, by virtue of provisions enacted in the Telecommunications Act of 1996, the new MCIC soon will be able to offer local exchange service in the U.S.

A key element of the FCC's decision regarding the instant application is whether such merger, and such substantial indirect foreign ownership of the new MCIC, and the issuance of licenses, authorizations, and certificates flowing therefrom, are in the public interest.

Comments:

1. The FBI is supportive of the policy of the United States Government to foster competition in the domestic and international telecommunications markets.

2. The FBI is aware that the FCC considers matters such as the existence of competition, opportunities, and openness in foreign telecommunications markets; national security; law enforcement; foreign policy; and trade policy in approving such applications under the above-mentioned Acts and related orders.

3. The FBI is not offering any comment on whether the proposed merger is in the public interest in terms of whether such merger appropriately fosters competition in the domestic U.S. market, or with reference to foreign policy and trade.

4. The FBI, however, is concerned that national security and law enforcement considerations have not been sufficiently addressed in the application materials received to date. The application devotes substantial space to discussing, and in attempting to substantiate, that the merger should be approved based upon competitive considerations within the U.S. and in the United Kingdom. However, it concludes, without any discussion, or without attempting to substantiate, that "the proposed merger is not inconsistent ... with national security or law enforcement concerns." Applications and Notification (App.) at 16; see also, App. at 53 and 59.

5. The FBI believes that it would be imprudent to authorize the merger, and grant the requested licenses, authorizations, and certificates of public convenience and necessity, absent a review that includes a more detailed carrier explanation addressing the U.S. national security and law enforcement concerns (*infra*), which concerns are critical components under Sections 214 and 310 of the Communications Act, the Submarine Cable Act, and under FCC orders, in determining the public interest.

6. In order to carry out their missions, law enforcement and intelligence agencies routinely acquire, from select carrier personnel, local exchange and interexchange service information and records concerning subjects of investigative interest. Further, such agencies frequently conduct electronic surveillance-related efforts within carrier networks regarding subjects of investigative interest, which necessitate the administrative, operational, and technical assistance of select carrier personnel. Such information and assistance are extremely sensitive at a minimum, and it is often classified. The potential for compromise of information associated with such activity is of great concern, and when foreign ownership is involved such concerns are further elevated. Most of these activities are conducted through local exchange carriers. Moreover, the potential for a foreign-based carrier to surreptitiously conduct electronic surveillance monitoring of U.S. persons and companies for economic or other reasons is a significant concern.

7. From a review of the application, the FBI is unable to determine whether the new MCIC intends to use U.S. personnel (or

to use U.S. personnel exclusively), for example, from its current company or otherwise, or whether foreign personnel would be involved in the U.S. in furnishing such sensitive or classified information or assistance, or whether foreign personnel would have access to information related thereto, or whether foreign personnel would have access to sensitive network components that can be used for electronic surveillance-related efforts.

8. In the application, MCIC states, with regard to providing local exchange service, that while its "initial entry into some local markets will be on the basis of resale and/or the predominant use of unbundled network elements obtained from other carriers, MCI plans a transition to greater reliance on its own facilities to permit more innovative service offerings and greater price competition." App. at 11.

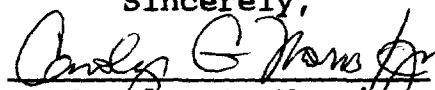
9. In the application, MCIC states that "BT brings to MCI its technical and marketing experience in a competitive local telephone business, which may be helpful as MCI continues to expand its local market entry efforts" and later "the companies plan to combine administrative functions, including such matters as purchasing." App. at 12.

10. In the application, it is noted that multinational companies want "a single carrier to supply integrated services across national boundaries," that there is "customer demand for such 'one-stop shopping' services," and that "the companies' common international strategy can be better achieved through the full integration of their technical and market planning capabilities." App. at 14-15.

11. The FBI believes that if reasonable consideration and accommodation are given to important national security and law enforcement concerns and needs, including those alluded to above, U.S. law enforcement and intelligence agencies likely would not interpose objections to approval of the instant application.

12. The FBI would welcome the opportunity to discuss in greater detail its concerns and the need for appropriate commitments related thereto, which could be reduced to conditions with regard to licenses, authorizations, and certificates, with representatives of the applicant, such that the FBI then could provide its final recommendation and comment for the record.

Sincerely,



Carolyn G. Morris
Assistant Director

Information Resources Division
10th & Pennsylvania Av., N.W.
Washington, D.C. 20535

(202) 324-4840
January 24, 1997

Federal Bureau of Investigation

ALAN R. McDONALD
Special Counsel
Information Resources Division

Ninth Street and Pennsylvania Ave. N.W.
Washington, DC 20535

(202) 324-5601